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TREASURY DEPARTMENT
WASHINGTON

REMARKS OF THE HONORABLE ROBERT A. WALLACE
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE AMERICAN METAL MARKET SILVER SEMINAR
ROOSEVELT HOTEL, NEW YORK, NEW YORK
MONDAY, SEPTEMBER 9, 1968, 1:00 P. M.

I SHOULD LIKE TO EXPRESS MY APPRECIATION TO MR. TRENCH AND MR. JENSEN FOR INVITING ME TO SPEAK AT THE AMERICAN METAL MARKET SEMINAR. THIS MEETING MAY BE MORE OF AN HISTORICAL EVENT THAN WE REALIZE. IT COULD BE THE LAST -- OR PERHAPS ONE OF THE LAST -- OCCASIONS ON WHICH A TREASURY OFFICIAL WILL BE CONSIDERED AS AN APPROPRIATE FEATURE SPEAKER ON SILVER TO A GATHERING OF INVESTORS AND INDUSTRIAL USERS OF THIS METAL. WITH THE ENDING OF SILVER CERTIFICATE REDEMPTIONS ON JUNE 24 OF THIS YEAR THE LONG MONETARY HISTORY OF SILVER IN THIS COUNTRY, TO ALL INTENTS AND PURPOSES, ENDED AND SILVER BECAME MERELY ONE OF A GROUP OF COINAGE METALS WITH NO MORE MONETARY SIGNIFICANCE THAN, FOR EXAMPLE, COPPER OR NICKEL. I VERY MUCH DOUBT THAT AT ANY INDUSTRIAL MEETING ON THE SUPPLY AND PRICE OUTLOOK FOR COPPER OR NICKEL A TREASURY OFFICIAL WOULD BE VERY HIGH ON THE LIST OF AUTHORITATIVE SPEAKERS.

HOWEVER, THE UNITED STATES TREASURY IS STILL AND WILL CONTINUE FOR SOME TIME TO BE THE WORLD'S LARGEST SUPPLIER OF SILVER TO THE PRIVATE MARKET. IN THIS CONTEXT TREASURY OFFICIALS HAVE A RESPONSIBILITY TO KEEP THE PUBLIC INFORMED AS TO WHAT WE HAVE BEEN DOING AND, TO THE EXTENT POSSIBLE, WHAT WE PLAN TO DO. I HAVE MADE SUCH PUBLIC REPORTS IN THE PAST AND I THINK IT APPROPRIATE ON THIS OCCASION THAT I BRING YOU UP TO DATE ON THE FIGURES AND PERHAPS ALSO CLARIFY THE PICTURE FROM THE GOVERNMENT'S STANDPOINT AS TO HOW THE CHANGE IN THE STATUS OF SILVER FROM A MONETARY METAL TO A COINAGE METAL CAME ABOUT. I WILL NOT GIVE YOU A LENGTHY HISTORICAL SUMMARY OF THIS

DEVELOPMENT BUT I WILL MENTION SOME OF THE MAJOR EVENTS IN THE PAST FEW YEARS AND GIVE PARTICULAR ATTENTION TO WHAT HAPPENED DURING THE PAST YEAR. THE GRADUAL PHASING OUT OF SILVER AS A MONETARY METAL THAT BEGAN IN THE EARLY 1960'S HAS NOT BEEN WITHOUT ITS TENSE MOMENTS, BUT ON THE WHOLE THE TRANSITION HAS BEEN CARRIED OUT FAIRLY SMOOTHLY AND WITHOUT DISRUPTING THE COMMERCE AND TRADE OF OUR COUNTRY -- THE OBJECTIVE WHICH HAS BEEN OUR MAJOR CONCERN.

AS EARLY AS 1961 THE GOVERNMENT'S TOP POLICY OFFICIALS GAVE CLOSE ATTENTION TO THE POSSIBLE CHANGING ROLE OF SILVER IN OUR MONETARY SYSTEM. ALTHOUGH AT THAT TIME THE TREASURY HELD SOME 2 BILLION OUNCES OF SILVER WE WERE AWARE THAT INDUSTRIAL SILVER DEMAND WAS RISING STEADILY AND WAS EVEN THEN BEGINNING TO EXCEED ANNUAL PRODUCTION FROM BELOW GROUND SOURCES. IT WAS CLEAR THAT MODIFICATIONS IN THE GOVERNMENT'S SILVER POLICY WERE NECESSARY TO ADJUST TO PROBABLE FUTURE TRENDS IN THE SUPPLY AND DEMAND FOR SILVER AND THE RESULTING IMPACT OF THESE TRENDS ON THE FREE MARKET PRICE.

AN EARLY MAJOR ACTION IN THE PROCESS OF WITHDRAWING SILVER FROM THE MONETARY SYSTEM, EXCEPT FOR USE AS A COINAGE METAL, WAS TAKEN UNDER THE AUTHORITY OF PUBLIC LAW 88-36 ENACTED IN JUNE 1963. THIS LEGISLATION, WHICH HAD BEEN RECOMMENDED BY THE PRESIDENT, ENDED THE REQUIREMENT FOR THE ISSUANCE OF SILVER CERTIFICATES AGAINST SILVER PURCHASED BY THE TREASURY, AND AUTHORIZED THE ISSUANCE OF \$1 FEDERAL RESERVE NOTES IN ORDER THAT SILVER CERTIFICATES IN THIS DENOMINATION MIGHT BE WITHDRAWN FROM CIRCULATION. THE EFFECT OF THIS LEGISLATION WAS TO CONSERVE THE REMAINING SILVER STOCK OF THE TREASURY FOR FUTURE GENERAL USE, EXCEPT OF COURSE FOR THE AMOUNT REQUIRED AS RESERVE FOR THE THEN OUTSTANDING AMOUNT OF SILVER CERTIFICATES.

WITH THE RISE IN THE MARKET PRICE OF SILVER TO \$1.29 AN OUNCE BY MID-1963, THE TREASURY RESUMED THE OFFERING OF SILVER BULLION TO THE PUBLIC AT ITS MONETARY VALUE IN EXCHANGE FOR SILVER CERTIFICATES. UNDER THE PRACTICAL PROCEDURE THAT WAS WORKED OUT, PERSONS WISHING TO ACQUIRE SILVER BULLION DID NOT NEED TO ACTUALLY PRESENT SILVER CERTIFICATES. AS AN OFFSET TO DAILY SALES OF SILVER THE FEDERAL RESERVE BANKS SIMPLY MADE AN EQUIVALENT WRITE-OFF ADJUSTMENT FROM THE UNFIT SILVER CERTIFICATES BEING RETIRED FROM CIRCULATION. IT WAS NOT UNTIL 1967 THAT THE ACTUAL PHYSICAL PRESENTATION OF SILVER CERTIFICATES WAS REQUIRED IN EXCHANGE FOR SILVER BULLION.

AN IMPORTANT PARALLEL DEVELOPMENT IN THE SILVER PICTURE AROUND THIS TIME WAS THE RAPID RISE IN THE DEMAND FOR COINS IN THE ECONOMY. THE FIRST COIN SHORTAGES BEGAN TO APPEAR IN THE FALL OF 1962 AND THE PROBLEM INCREASED DURING 1963 AND 1964. DESPITE ROUND-THE-CLOCK PRODUCTION BY THE U. S. MINTS THE SUPPLY OF COINS CONTINUED TO BE VERY TIGHT THROUGHOUT THIS PERIOD. THE HEAVY PRODUCTION OF COINS OF COURSE CUT DEEPLY INTO THE TREASURY STOCKS OF SILVER. AT THE END OF 1964 THE TREASURY STOCK OF SILVER WAS REDUCED TO ABOUT 1.2 BILLION OUNCES AND IT WAS OBVIOUS THAT SOONER OR LATER SOMETHING WOULD HAVE TO BE DONE ABOUT A SUBSTITUTE COINAGE MATERIAL. ALTHOUGH TREASURY SILVER STOCKS WERE STILL ADEQUATE TO PERMIT THE CONTINUATION OF SUBSIDIARY SILVER COINAGE FOR THE IMMEDIATE FUTURE, IT WAS RECOGNIZED THAT TIME WOULD BE REQUIRED TO MAKE A DELIBERATE SEARCH FOR A SATISFACTORY SUBSTITUTE, TO OBTAIN CONGRESSIONAL ACTION TO PRODUCE THE NEW COIN, AND TO MAKE A SUCCESSFUL TRANSITION TO THE NEW SUBSIDIARY COINAGE MATERIAL. IN THE MEANTIME, MUCH OF THE TREASURY SILVER STOCKS WOULD HAVE TO BE CONSUMED IN COINAGE AND THROUGH

SALE IN THE MARKET TO ASSURE THAT THE MARKET PRICE OF SILVER DID NOT RISE A POINT AT WHICH IT WOULD BE PROFITABLE TO MELT U. S. SILVER COINAGE FOR THE VALUE OF ITS SILVER CONTENT.

IN 1964 THE TREASURY INITIATED ITS OWN STAFF STUDY OF COINAGE MATERIALS AND ENGAGED A WIDELY KNOWN RESEARCH ORGANIZATION TO STUDY THE DIFFERENT QUALITIES OF THE ALTERNATIVE MATERIALS. IN CONNECTION WITH THESE STUDIES VARIOUS COINAGE MATERIALS WERE TESTED AND RATED ACCORDING TO CERTAIN CRITERIA AMONG WHICH WERE PUBLIC ACCEPTABILITY, INCLUDING APPEARANCE, WEIGHT, COLOR, WEARING QUALITIES, OPERATION IN VENDING MACHINES, COUNTERFEITING POTENTIAL, EASE OF PRODUCTION, AND COST AND AVAILABILITY OF RAW MATERIALS.

THERE WAS NO KNOWN MATERIAL POSSESSING ALL OF THE NECESSARY PROPERTIES, SO COMBINATIONS OF MATERIALS WERE STUDIED -- IN THE FORM OF CLAD MATERIAL. IT WAS DECIDED THAT THE BEST ALLOY FOR THE COINAGE WAS THE CLAD CUPRO NICKEL MATERIAL WHICH BY NOW IS FAMILIAR TO ALL OF YOU.

THERE REMAINED THE QUESTION OF WHETHER OR NOT SILVER MIGHT BE RETAINED IN ONE COIN SUCH AS THE KENNEDY HALF DOLLAR TO PRESERVE THE TRADITION OF SILVER IN THE U. S. COINAGE. AFTER SOME DELIBERATION IT WAS DECIDED TO RETAIN A REDUCED QUANTITY OF SILVER IN THE 50 CENT PIECE. IN JUNE OF 1965 THE PRESIDENT SENT A MESSAGE TO THE CONGRESS REQUESTING LEGISLATION AUTHORIZING THE PROPOSED NEW COINAGE. THE CONGRESS RESPONDED PROMPTLY AND THE COINAGE ACT OF 1965 WAS SIGNED BY THE PRESIDENT ON JULY 23 OF THAT YEAR. SHORTLY THEREAFTER PRODUCTION OF THE NEW COINS SWUNG INTO HIGH GEAR. HOWEVER, IT WAS RECOGNIZED THAT PERHAPS AS MUCH AS TWO YEARS OF HEAVY PRODUCTION WOULD BE NECESSARY TO MAKE ENOUGH OF THE NEW CLAD COINS TO BE ABLE TO FULLY REPLACE THE EXISTING DIMES AND QUARTERS IN CIRCULATION.

DURING THIS PERIOD OF TRANSITION, FROM THE FALL OF 1965 TO THE SPRING OF 1967, THE OUTFLOW OF SILVER FROM TREASURY STOCKS STAYED AT A SUBSTAINABLE RATE. BUT, BY THE END OF APRIL 1967 FREE SILVER STOCKS -- THE SILVER NOT REQUIRED AS A RESERVE BEHIND SILVER CERTIFICATES -- HAD DROPPED TO ABOUT 90 MILLION OUNCES. TO INCREASE THIS RESERVE THE TREASURY ON MARCH 14, 1967 REQUESTED LEGISLATION TO WRITE OFF \$200 MILLION IN SILVER CERTIFICATES WHICH WERE ESTIMATED TO HAVE BEEN LOST, DESTROYED, OR FOR SOME OTHER REASON WOULD NOT SHOW UP IN COMMERCE. THE LEGISLATION ALSO PROVIDED THAT THE RIGHT TO REDEEM SILVER CERTIFICATES FOR SILVER WOULD END ONE YEAR FROM THE ENACTMENT DATE OF THE NEW LAW AND ALSO REQUIRED THE TREASURY ONE YEAR AFTER THE SIGNING OF THE BILL TO TURN OVER 165 MILLION OUNCES OF SILVER TO THE DEFENSE STOCK-PILE. THIS BILL WAS SIGNED INTO LAW ON JUNE 24, 1967.

MEANWHILE, DURING MAY OF 1967 DEMANDS ON THE TREASURY TO PURCHASE SILVER UNDER THE UNRESTRICTED SALES POLICY ROSE DRAMATICALLY. AT THIS TIME BASIC DECISIONS ON SILVER POLICY WERE CLEARLY NECESSARY. BUT BEFORE MAKING THESE DECISIONS THE SECRETARY OF THE TREASURY WANTED TO OBTAIN A BROAD AND AUTHORITATIVE RANGE OF EXPERT ADVICE FROM BOTH WITHIN AND OUTSIDE THE EXECUTIVE BRANCH OF THE GOVERNMENT AND THE CONGRESS. FORTUNATELY A PRACTICAL MECHANISM IN THE FORM OF THE JOINT COMMISSION ON THE COINAGE WAS AT HAND WHICH PERMITTED THE SECRETARY ON SHORT NOTICE TO OBTAIN SUCH CONSULTATIONS. THIS TWENTY-SIX MEMBER COMMISSION WHICH HAD BEEN AUTHORIZED BY THE COINAGE ACT OF 1965 INCLUDED KEY OFFICIALS OF THE EXECUTIVE BRANCH, THE PRINCIPAL MONETARY AUTHORITIES IN THE CONGRESS OF BOTH PARTIES, AND BIPARTISAN REPRESENTATION FROM THE PUBLIC.

BEGINNING ON MAY 18, 1967 THE JOINT COMMISSION ON THE COINAGE HAS MET IN CONSULTATION WITH TREASURY OFFICIALS ON FIVE OCCASIONS, THE MOST RECENT BEING IN JULY OF THIS YEAR. AT THESE MEETINGS THE COMMISSION HAS BEEN THOROUGHLY BRIEFED ON THE COINAGE AND SILVER SITUATION AND THE MEMBERS HAVE HAD THE OPPORTUNITY TO DISCUSS AND EXPRESS THEIR VIEWS ON ALL MAJOR POLICY ACTIONS TAKEN OVER THE PAST YEAR. I BELIEVE I CAN SAY WITH ACCURACY THAT ALL OF THE MAJOR SILVER POLICY DECISIONS MADE SINCE MAY 18, 1967 HAVE HAD THE CONCURRENCE OF A MAJORITY OF THE COMMISSION MEMBERS.

I THINK YOU ARE ALL GENERALLY FAMILIAR WITH THE MAJOR GOVERNMENT ACTIONS WITH RESPECT TO SILVER DURING THE PAST YEAR. THE KEY ACTIONS OF COURSE WERE THE HALT IN SALES OF SILVER AT THE \$1.29 SUBSIDY PRICE AND THE INITIATION OF WEEKLY SALES AT A 2 MILLION OUNCE RATE BY GSA UNDER A COMPETITIVE SEALED BID PROCEDURE. THESE ACTIONS WERE TAKEN AS SOON AS THE TREASURY CONCLUDED THAT SUPPLIES OF CLAD COINS WERE ADEQUATE FOR THE NORMAL TRADING NEEDS OF THE ECONOMY.

BEFORE THE WEEKLY GSA SALES WERE INITIATED THE COINAGE COMMISSION WAS GIVEN TREASURY'S ASSURANCE THAT THE STOCK OF SILVER WAS SUFFICIENT TO SATISFY ALL EXPECTED EXCHANGES OF SILVER CERTIFICATES, MEET THE COMMITMENT TO TRANSFER 165 MILLION OUNCES OF SILVER TO THE DEFENSE STOCKPILE, AND TO CONTINUE WEEKLY SALES AT THE 2 MILLION OUNCE RATE. AS YOU KNOW, THE EXPERIENCE OF THE PAST YEAR HAS BORNE OUT THE SOUNDNESS OF THIS ASSURANCE.

AT THE TIME THE FIRST SALE OF SILVER WAS MADE THROUGH THE GSA ON AUGUST 4, 1967 THE TREASURY HELD ABOUT 440 MILLION OUNCES OF SILVER IN BULLION AND ABOUT 80 MILLION OUNCES IN ITS COIN INVENTORIES, FOR A TOTAL OF

520 MILLION OUNCES. SINCE THAT TIME THE TREASURY HAS TRANSFERRED 165 MILLION OUNCES TO THE DEFENSE STOCKPILE, SOLD ABOUT 100 MILLION OUNCES THROUGH THE GSA, EXCHANGED ABOUT 90 MILLION OUNCES FOR SILVER CERTIFICATES, AND USED JUST OVER 40 MILLION OUNCES FOR COINAGE. AS A PARTIAL ~~OFF~~SET TO THIS OUTFLOW THE TREASURY HAS ADDED ABOUT 190 MILLION OUNCES THROUGH THE RECOVERY OF SILVER COINS. AS A RESULT OF THESE CHANGES THE TREASURY NOW HOLDS ABOUT 300 MILLION OUNCES OF SILVER OF WHICH APPROXIMATELY 240 MILLION OUNCES CONSISTS OF SILVER IN COINS. AT THE PRESENT TIME GSA'S WEEKLY OFFERING CONSISTS OF 2 MILLION OUNCES OF COIN SILVER BARS PLUS ANY UNSOLD AMOUNTS WHICH HAVE BEEN CARRIED OVER FROM PREVIOUS SALES.

IN THIS CONTEXT I WANT TO MAKE ONE POINT CLEAR. THE DECISION EACH WEEK AS TO WHICH OF THE COMPETITIVE BIDS SUBMITTED ARE IN LINE WITH THE PREVAILING FREE MARKET PRICE IS MADE BY OFFICIALS OF THE GENERAL SERVICES ADMINISTRATION NOT THE TREASURY. WE FEEL THAT THE GSA PEOPLE HAVE THE INDEPENDENT EXPERTISE TO MAKE THIS JUDGMENT IN A FAIR AND EQUITABLE MANNER - WITHIN THE GENERAL GUIDELINES ESTABLISHED BY THE TREASURY AND THE JOINT COINAGE COMMISSION.

THIS THEN IS THE SITUATION IN SEPTEMBER 1968 WITH RESPECT TO THE GOVERNMENT'S SUPPLY OF SILVER. NO CHANGE IN THE WEEKLY RATE OF GSA SALES IS CONTEMPLATED. AS MOST OF YOU KNOW MELTING SILVER COINS INTO BARS IS A RELATIVELY SIMPLE PROCESS AND SUPPLIES ARE AMPLE TO CONTINUE THE SALES FOR SEVERAL YEARS. AT THE SAME TIME THE SUPPLY OF COINS IS STILL BEING REPLENISHED THROUGH THE COIN RECOVERY PROGRAM WHICH WILL BE CONTINUED. WITH REGARD TO THE HALF DOLLAR, CONGRESS HAS AUTHORIZED THE MINTING OF 100 MILLION PIECES USING ABOUT 15 MILLION OUNCES OF SILVER DURING FISCAL 1969. I HAVE NOT INCLUDED THE SILVER TO BE USED IN THE HALF DOLLAR THIS YEAR IN MY SUMMARY OF

THE CURRENTLY AVAILABLE SILVER STOCKS SINCE THIS SILVER HAS ALREADY BEEN SET ASIDE FOR COINAGE PURPOSES. AS TO THE EVENTUAL FUTURE OF THE HALF DOLLAR THIS IS A MATTER ON WHICH THE COINAGE COMMISSION IS EXPECTED TO MAKE A RECOMMENDATION, PERHAPS AT THE NEXT MEETING SCHEDULED IN NOVEMBER.

WHAT ALL THIS PORTENDS FOR THE FUTURE PRICE OF SILVER I DO NOT KNOW. I LEAVE THIS SORT OF FORECASTING FOR THE MARKET EXPERTS HERE AT THIS MEETING. I WILL SAY THAT THE TREASURY DOES NOT CONDUCT ITS OPERATIONS WITH A VIEW TO THWARTING INVESTORS OR THOSE WHO MAY HAVE GONE OUT ON A LIMB IN EITHER DIRECTION WITH REGARD TO THE FUTURE PRICE OF SILVER. ON THIS MATTER WE TAKE A POSITION OF STRICT NEUTRALITY. WHILE WE DO HAVE CONCERN OVER AN UNCALLED FOR RISE IN THE PRICE OF ANY COMMODITY, THE TREASURY'S CONCERN OVER THE PRICE OF SILVER IS NO GREATER THAN THAT FOR OTHER METALS AND COMMODITIES USED BY INDUSTRY.

IN CONSIDERING THE SILVER OUTLOOK, THE VERY LARGE SALE OF SILVER BY THE TREASURY OVER THE PAST YEAR OR SO SHOULD BE TAKEN INTO ACCOUNT. JUST SINCE MAY OF LAST YEAR THE TREASURY HAS SOLD TO THE DOMESTIC PRIVATE MARKET -- EITHER DIRECTLY OR IN EXCHANGE FOR SILVER CERTIFICATES MORE THAN 230 MILLION OUNCES OF SILVER. THE TOTAL AMOUNT BOUGHT IN THE MARKET WOULD BE INCREASED BY ANOTHER 40 MILLION OR SO OUNCES OF MINING PRODUCTION. THIS OVER-ALL TOTAL IS FAR IN EXCESS OF ANY ESTIMATES OF INDUSTRIAL CONSUMPTION THAT I HAVE SEEN. THE DIFFERENCE CANNOT BE ATTRIBUTED TO EXPORTS BECAUSE OVER THIS SAME GENERAL PERIOD NET EXPORTS OF SILVER TOTALED ABOUT 40 MILLION OUNCES. SO IT WOULD SEEM THAT THE HOLDINGS OF SILVER BY INVESTORS AND/OR INDUSTRIAL USERS IN THE AMERICAN MARKET HAVE INCREASED VERY SUBSTANTIALLY OVER THE PAST 18 MONTHS.

IN THIS REVIEW OF THE SILVER SITUATION FROM THE GOVERNMENT'S STANDPOINT. I HAVE GIVEN YOU ABOUT ALL THE INFORMATION AND FIGURES AT MY DISPOSAL. THE

PURPOSE OF COURSE IS TO MAKE AVAILABLE THE KIND OF INFORMATION I THINK THE PUBLIC HAS A RIGHT TO KNOW. AS TO WHAT THIS MEANS FOR THE FUTURE, I LEAVE THAT ENTIRELY TO YOU BUT A FREE MARKET IN ANY COMMODITY CAN ONLY CONTRIBUTE TO A STRONGER ECONOMY WHEN ITS PARTICIPANTS ARE WELL INFORMED AND BASE THEIR DECISIONS ON FACTS RATHER THAN RUMOR. I HOPE I HAVE MADE A CONTRIBUTION TO THIS OBJECTIVE.

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